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FAIRS Subject Report

Taxes on Wine from the United States

2008

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Report Highlights:
In spite of lower duties for U.S. wines in the Dominican Republic after the implementation of the DR-CAFTA, the consumer price continues to be high because of high luxury and value added taxes.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Santo Domingo [DR1]
[DR]

TAXES ON WINE FROM THE UNITED STATES

I. INTRODUCTION

With the implementation of the DR-CAFTA agreement the expectations of both U.S. suppliers and Dominican importers about the lowering U.S. wine prices were very high. For example, wine exporters and importers were expecting the local price in the Dominican Republic to change dramatically, and to see U.S. wines to be very competitive in the Dominican market. However, this has not been the case. Duties for U.S. wines are lower, zero for some, but there are other taxes that make consumer prices to continue to be high. The duty paid represents only a small percentage of the consumer price.

This report shows the current duties and additional internal taxes on U.S. wines in the Dominican Republic. It shows why prices for U.S. wines are still high even after the implementation of the DR-CAFTA agreement.

II. DUTIES ON U.S. WINES

Before the implementation of the DRA-CAFTA, regular duty on wines was 20%. In addition, there are other charges, which we will describe in this report. With the implementation of the agreement, wines are included under category A and B of the tariff schedule, depending on the type. Category A means that duties were removed immediately. Category B means that duties would be removed in five equal annual stages, year 1 through year 5; that is, 20% decrease of the current percentage each year.

As a result of the agreement the duty schedule for U.S. wine is as follows:

TARIFF CODE	DESCRIPTION	CATEGORY	ORIGINAL TARIFF	2008 (%)	2009 (%)	2010 (%)
2204.10.20 2204.10.90 2204.21.00	Sparkling wine	A	20			
2204.29.00	Grape Wine NESOI	B	20	8.00	4.00	0.00
2204.30.00	Grape Must Fermented		20	5.60	2.80	0.00
2205.10.00 2205.90.00	Vermouth Grape Wine		20	8.00	4.00	0.00

Source: Dominican Custom Department's web page. June 20, 2008.
(http://www.dga.gov.do/dgagov.net/uploads/file/Calendario_Desgravacion_DR-CAFTA.pdf)

III. ADDITIONAL INTERNAL TAXES

A recent research carried out by FAS by contacting the Dominican Custom Department, a wine importer, and a commercial tax advisor found out that, in addition to any duty, there are other taxes and charges on imported wines that make the consumer price to be very high. These taxes are the luxury tax charge by Custom, the Ad Valorem Tax, and the value added tax (ITBIS).

3.1. Luxury Tax for Custom (Impuesto Selectivo al Consumo)

The Dominican has a luxury tax for some non-essential products. Products, which concerns to FAS, include alcoholic beverages and tobacco. In the calculation of the luxury tax, there is a constant value used. For wines, this value is 372.49. The procedure to calculate the luxury tax is multiplying that constant value time the absolute content of alcohol. The absolute content of alcohol is the number of liters time the percentage of alcohol. This calculation yields a result in local currency. The following example illustrates this procedure.

3.2. Luxury Tax Ad-Valorem (Impuesto Selectivo al Consumo Ad- Valorem)

This is an additional tax based on the consumer price. This is a tax paid not to Custom, but to DGII. However, to avoid the importer to go to two different government entities to pay taxes, the government decided to charge that tax at the Custom Department during the custom clearance procedure. This value is calculated adding a percentage to the addition of the CIF value, duties, and the first luxury tax. These percentages are 20% for wine, 30% for alcohol, and 10% for tobacco products. Then the value is multiplied time 7%, which is the Ad Valorem Tax. This used to be 15%, but it was lowed to 7% as a tax incentive. On the custom sheet, this tax is calculated together with the first one. The computer system at custom is programmed to do the calculation at one.

3.3. Value Added Tax (ITBIS)

This is an internal tax of 16% applicable to most products and services in the Dominican Republic. Some of the most essential food products and educational materials are exempted. There is a mechanism to transfer this tax directly to consumers. When companies pay this tax, they are reimbursed con compensated at the end.

Once this tax was paid to the Dominican Internal Revenue Service (DGII), but now it is also charged at custom. The ITBIS tax is applied to the addition of CIF, duties, and both luxury taxes.

3.4. An illustration of the Procedure

The following table illustrates the procedure to calculate all these charges.

Details	Calculation	US$
FOB price for 100 liters (US$1.50/Lt) 10.5% alcohol		150.00
Freight		85.00
Insurance		5.00
CIF (Cost+Insure+Freight) in US$		240.00
Duty (See tarif Schedule)		0.00
Exchange Rate (US$ to RD$)		34.00
CIF (Cost+Insure+Freight) in RD$		8,160.00
Luxury Tax for Custom	(372.49*0.105*100)	3,911.15
Estimated commercialization margin (20%)	(CIF+Duty+Luxury Tax)*0.20	2,414.23
Ad Valorem Tax	(CIF+Duty+Luxury Tax)*0.20*0.075	181.07
Duties and luxury taxes		8,003.36
Value Added Tax 16%)	(CIF+ Luxury Tax + Ad Valorem Tax)*0.16	1,960.35
Total taxes		9,963.71
Total cost (RD$)	CIF+Luxury tax+Ad Valorem + ITBIS	18,123.71
Total cost (US$) per Liter		**5.33**

This example shows that the cost of a liter of wine purchased in the United States at $1.50 could go up to $5.33 in the Dominican Republic. If the margin to the importer is 20%, and it could be much higher, the price to the retailer is $6.40. Adding the margin to the retailer, we get the consumer price.

VI. POST CONSTACT AND FURTHER INFORMATION

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